

Pflug Koory, LLC Brochure  
January 1, 2014

Part 2A of Form ADV

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This brochure provides information about the qualifications and business practices of Pflug Koory, LLC and its principals, Thomas Pflug, CFA and Marcia Koory, CFA. Please contact Thomas Pflug, CFA at 402 691-0988 or [tom@pkllc.com](mailto:tom@pkllc.com) if you have any questions about the contents of this brochure. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Pflug Koory, LLC and its principals, Thomas Pflug, CFA and Marcia Koory, CFA, is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that any reference to "registration," "registered," or "registered investment advisor" does not imply a certain level of skill or training.

This brochure contains no material changes from our last annual update to Form ADV.

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### **Advisory Business**

Pflug Koory, LLC was formed on September 1, 2000 through the merger of Pflug Investment Management, Inc. and Summit Value Investment Counsel, LLC. The principal owners of the firm are Thomas F. Pflug, CFA and Marcia A. Koory, CFA.

Pflug Koory, LLC provides investment management services to its clients. We assist our clients by:

- Educating them about investments and securities markets.
- Reviewing their existing investments.
- Identifying their future investment goals and objectives.
- Assessing their financial risk tolerance.
- Developing an appropriate investment policy reflecting our clients' investment goals and risk constraints along with any specific directives or restrictions requested by our clients.
- Implementing and monitoring the agreed upon investment policy.
- Handling administrative tasks associated with brokerage/custody accounts.
- Performing fundamental research on stocks, bonds, and mutual funds to identify those securities most likely to serve the investment needs of our clients.
- Placing trades for our clients' accounts.
- Reconciling our clients' brokerage accounts with our own internal portfolio management system.
- Providing quarterly reports of investments owned and portfolio performance.
- Providing information to assist our clients in the preparation of their income tax returns.
- Meeting with our clients periodically to review their investment policy, discuss their changing circumstances, and adjust their investment portfolio as necessary.

Pflug Koory, LLC provides advice on wide range of investments, but we find most of our clients are primarily focused on stocks, bonds, and mutual funds.

As of December 31, 2013, Pflug Koory, LLC managed a total of \$170 million broken down between discretionary accounts (\$123 million) and non-discretionary accounts (\$47 million).

### **Fees and Compensation**

We charge a management fee for our services that is typically computed as a percentage of the assets we manage for a client. For example, the fee for a client with \$100,000 under our management might be 1% per year resulting in an annual cost to the client for our services of \$1,000.

#### **Portfolio Management Annual Fee Schedule:**

- 1.25% for net assets less than \$1,000,000
- 1.00% for net assets from \$1,000,000 to \$5,000,000
- Negotiable for net assets greater than \$5,000,000
- Minimum annual fee of \$500

The portfolio management fee is calculated and billed at the end of each calendar quarter by multiplying  $\frac{1}{4}$  of the annual rate by the portfolio's net assets as of the quarter end. Fees for accounts terminated prior to the end of a calendar quarter will be calculated on a pro rata basis as of the termination date. Fees may be paid from portfolio assets or billed to the client at the client's discretion. Since the portfolio management fee is not collected in advance, the Advisor does not have a refund policy. Fees may be negotiable under certain circumstances.

Clients should also note that in addition to management fees paid to Pflug Koory, LLC investments may incur other costs (for example, brokerage commissions, mutual fund operating expenses, custodian or transaction fees) that are not received by Pflug Koory, LLC. Please refer to the section of our brochure on Brokerage for more information.

**Consulting:**

Hourly consulting is available at a rate not to exceed \$150 per hour for clients maintaining a portfolio management relationship with the Advisor. Consulting for other clients will be billed at a rate not to exceed \$300 per hour. The actual hourly rate will depend on the nature of, and circumstances related to, the work to be performed. Hourly rates will be disclosed to the client in advance and billed upon completion of the consulting engagement unless other arrangements are made. Other direct expenses related to the consulting work will also be billed to the client. Examples of those types of expenses would be for travel, hotel accommodations, etc.

Pflug Koory, LLC does not solicit or accept commissions, referral fees, performance fees, or other forms of compensation.

**Termination of our Investment Advisory Relationship:**

Either the client or the Advisor may terminate the investment advisory relationship at any time by giving thirty (30) days written notice of termination to the other party. If the termination takes place before the end of a quarter, any fees owed to the Advisor shall be paid by the client on a prorated basis as of the effective date of the termination.

**Types of Clients**

Pflug Koory, LLC provides investment management services to individuals, businesses, trusts, charitable foundations, and retirement plans. We impose no minimums on client accounts, although we will not accept clients if it would be economically counterproductive to the client to pay our minimum annual fee.

**Methods of Analysis, Investment Strategies, and Risk of Loss**

Simply put, our investment philosophy is based on understanding that the investment mathematics must make sense. The numbers have to add up for any and all investments. It is important to understand that investing in securities always involves the risk that you may lose money, and you must be prepared to bear that risk. But, when we apply our "math makes sense" standard to stock, bond, and mutual fund investments, we reduce the

risk of permanent capital loss. We also reduce the common tendency to allow emotion to cloud sound judgment.

**Stocks:** When we buy stocks, we first look for companies with outstanding business models. By that we mean a company that has a product or service that people will want to purchase repeatedly at a price that earns a profit for the company. That company will usually generate consistent earnings. We then compare the price of the company's stock to the mathematical present value of its projected earnings to determine if we should buy or sell the stock. We buy or sell the stock "when the math makes sense."

Here are some of the risks we face when owning stocks:

- The company may not perform as well as we expect.
- The industry may not perform as well as we expect.
- The economy may not perform as well as we expect.
- The stock market may not perform as well as we expect.

By owning a variety of stocks in a variety of industries, we limit the risk that any one stock's poor performance could permanently impair the value of a client's portfolio.

**Bonds:** We apply similar discipline to fixed income security selection. We use fixed income securities to limit large changes in the value of our clients' portfolios. In addition to the steps we take in evaluating stocks, we pay special attention to the ability of the borrower to repay us at maturity.

Here are some of the risks we face when owning bonds:

- The company may not have sufficient cash to pay interest or principal.
- Market interest rates may rise.
- The economy may not perform as well as we expect.

By owning a variety of bonds in a variety of industries, we limit the risk that any one bond's poor performance could permanently impair the value of a client's portfolio.

**Mutual Funds:** We will use mutual funds for clients when they are the most efficient way to accomplish a client's portfolio goals. We use only true "no-load" funds with expense ratios below their peer group average. The risks we discussed previously also apply to mutual funds.

### **Disciplinary Information**

We are not now, and have never been, the subject of any legal or disciplinary events.

### **Other Financial Industry Activities and Affiliations**

We are not now, and have never been, affiliated with any other financial entities.

### **Code of Ethics, Client Transactions, Personal Trading**

As CFA (Chartered Financial Analyst) charter holders, we are bound by the Code of Ethics and The Standards of Professional Conduct of the CFA Institute. The CFA

Institute Code of Ethics and Standards of Professional Conduct are available to current or prospective clients upon request.

From time to time, we (or members of our immediate families) may own some of the same securities owned by our clients. This could present a conflict of interest if we were to purchase or sell securities ahead of our clients at better prices than our clients would subsequently receive. To eliminate this possibility, if transactions involve securities held by us and our clients, we will be the last to purchase or sell those securities.

### **Brokerage Practices**

We will ask our clients if they have a preference on the broker or custodian who services their account(s). We will honor our clients' instructions regarding the use of a specific broker(s) or custodian for trading and custody of their assets. In the event a client directs the use of a certain broker or custodian, the client will normally be responsible for negotiating fees and commission rates with that service provider. When that happens the client may pay higher fees or commissions than he or she would pay if we had been allowed to select the broker or custodian.

When our clients allow us to choose a broker or custodian we base our selection on:

- the provider's ability to meet our client's specific needs,
- the provider's quality of service,
- the provider's ability to efficiently execute trades,
- the commission rate or service fees our clients will pay, and
- the financial stability of the selected provider.

Every year we gather information from a variety of sources to determine the general level of commission rates being charged by brokers for sample trades in order to evaluate the overall reasonableness of brokerage commissions paid by our clients on similar trades. In making our evaluation we attempt to take into account a variety of factors that impact our clients: trade execution, market liquidity, and the amount capital commitment by the broker among other things.

In order to reduce trading costs for our clients, we will generally buy fixed income securities (bonds) from the issuer or a primary market maker who acts as a principal.

We do not "pay up" for research services or any other products or services provided by brokers which are not related to executing trades for our clients. In other words, we do not pay higher commission rates in exchange for any services provided by the broker which do not contribute to the quality execution of transactions. We may receive research services from brokers we use, but only if we believe that broker will provide quality service and competitive commission rates. We do not consider non-research or non-brokerage services or products when we select a broker. The research services we may receive include a wide variety of reports, charts, publications, and information on economic and political developments, industries, companies, securities, portfolio strategy, credit analysis, stock and bond market conditions and projections, asset allocation, and portfolio structure among other things. We have no agreements or

understandings with any broker that require us to generate a certain amount of commission revenue for that broker in exchange for research, brokerage, or other services, i.e. a “soft dollar” arrangement.

We may recommend that a client establish a brokerage account with a specific broker who we believe is best able to meet the needs of the specific client. We are independently owned and operated and not affiliated with any financial or brokerage firm. We do not receive any referral fees or other compensation from any firm for referring clients to them. Brokerage firms may provide us with access to institutional trading and custody services which are typically not available to retail investors. These services are generally available to independent investment advisors on an unsolicited basis at no charge to the advisor so long as a certain minimum amount of assets are maintained in accounts at the broker. We are not required to generate a specific amount of trading business for the broker. We generally receive services that include trade execution, custody, research, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

The stock brokers we recommend for our clients generally do not charge separately for custody. Instead they are compensated through commissions or other transaction-related fees on trades executed through the brokers or that settle into the brokers’ accounts.

Brokers may also make available to us other products and services that benefit our firm but may not directly benefit our clients’ accounts. Some of these other products and services assist us in managing and administering clients’ accounts. These may include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate authorized payment of our fees from our clients’ accounts; and assist with back-office functions, recordkeeping, and client reporting. Many of these services may be used to service all or a substantial number of our clients’ accounts, including accounts not maintained at a specific broker. Brokers may also make available to us other services intended to help us manage and further develop our business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. As a fiduciary we always try to act in our clients’ best interests. Nonetheless, our recommendation that clients maintain their assets in accounts at a broker may be based in part on the benefits we receive due to the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by the broker.

Since we manage each of our client portfolios individually, we do not aggregate security trades for more than one client at a time. If we did aggregate trades we would theoretically receive identical pricing for each client. But, since client portfolio reviews cannot be conducted simultaneously, aggregating trades is not a practical option.

### **Review of Accounts**

When a new client begins working with us, a qualified investment counselor/portfolio manager works with the client to develop an appropriate investment policy for the client. Investment goals and objectives are included in this policy. The investment advisor subsequently supervises the management of the client's portfolio in accordance with the agreed upon investment policy. We review client portfolios continuously rather than on an arbitrary, periodic schedule or sequence. Any development affecting the portfolio structure (for example, a change in the client's circumstances) or an existing holding (for example, a significant business development) will trigger a review and appropriate action. When we review the portfolio structure, we analyze the portfolio's asset allocation and diversification. We continuously review the securities held in portfolios we manage along with a broad group of other securities that we analyze in order to determine what changes, if any, should be made in a portfolio. We will also review a portfolio when we buy or sell an investment to assure appropriate asset allocation. Each portfolio is reviewed at least quarterly for suitability of investments, customer objectives, and compliance with investment policy. We provide this review shortly after the end of each calendar quarter in a formal, written portfolio appraisal that includes a listing of portfolio assets, performance figures, and brief market comments.

### **Client Referrals and Other Compensation**

We do not presently, and we never have, paid or accepted compensation to/from anyone for referring clients to us or referring clients to others.

### **Custody**

We do not have custody of client funds. We do maintain a portfolio management system that is used to provide clients with reports. Our clients will also receive statements from the broker or custodian who provides custody services. We encourage our clients to carefully review those statements and urge them to compare those statements with the statements we provide.

### **Investment Discretion**

We will accept discretionary authority to manage our clients' investments if our clients grant that authority. That means that we will execute specific trades for our clients within the parameters of our client's investment policy and in pursuit of our client's investment goals. Before we assume discretionary authority, our client will sign a limited power of attorney that is recognized by the custodial broker.

### **Voting Client Securities**

When requested by our clients we will vote proxies for them on securities owned in their portfolios. We have a written proxy voting policy that is attached to this document as Attachment A.

### **Financial Information**

We do not require or solicit prepayment of any client fees.



## **Attachment A**

### **Pflug Koory, LLC Proxy Voting Policy and Procedures**

#### **Policy**

Pflug Koory, LLC (“firm”) subscribes to the Code of Ethics and Standards of Professional Conduct of the CFA Institute. We have a fiduciary responsibility to vote client proxies in the best interests of those clients. It is the policy of our firm to make every reasonable effort to place the interests of our clients ahead of our own in the voting of proxies.

#### **Procedures**

The procedures adopted by Pflug Koory, LLC are reasonably designed to ensure that client proxies are voted in the best interests of our clients. These procedures are not designed, and could not be expected, to anticipate every possible proxy voting scenario. They are, however, intended to provide guidance for firm personnel and information to clients relating to proxy voting.

1. In the course of our investment research and analysis, firm personnel monitor the corporate issues and actions that impact our clients’ securities. Examples include, corporate governance matters, changes to capital structure, stock option and executive compensation plans, social and corporate responsibility issues, etc.
2. Upon receipt of a proxy solicitation which the firm has authority to address, the proxy materials and other pertinent information are reviewed. We determine whether the proxy presents a potential or actual conflict of interest between our firm and our clients. Assuming no conflict of interest, we vote, or refrain from voting, the proxy in a manner that in our best judgment will result in the best long-term total return to our client from the subject investment. Should a conflict of interest exist, the conflict is disclosed to the interested client, and prior client consent to vote the proxy is sought. The client is also offered the option to vote the subject proxy directly. In any event, the firm exercises its best, reasonable efforts to make and execute a voting decision based on the client’s best interest.
3. Potential conflicts of interest might include a business relationship with the company soliciting proxies, a business or personal relationship with participants in a proxy contest, or a firm financial interest in the outcome of the proxy vote. Should an actual or potential conflict exist, we make every reasonable effort to provide our client with sufficient information regarding the proxy vote and conflict to allow the client to make an informed decision about the issue.
4. Proxies may be voted on line, via regular mail or telephone, or in person.
5. Clients may contact our office at any time to request a copy of this document or information regarding how a proxy has been voted.
6. The firm will maintain reasonable, easy access to material, relevant proxy voting materials and records for five years from the date of the proxy vote.
7. The effective date of this document is August 1, 2003. Item 5 was updated on August 20, 2008 to include the statement relating to how a proxy has been voted.

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Part 2B of Form ADV

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This brochure supplement provides information about Thomas Pflug, CFA and Marcia Koory, CFA that supplements the Pflug Koory, LLC brochure. You should have received a copy of that brochure. Please contact Thomas Pflug, CFA if you did not receive Pflug Koory, LLC's brochure or if you have any questions about the contents of this supplement.

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**Educational Background and Business Experience:**

**Name:** Thomas F. Pflug, CFA (see note below)

**Year of birth:** 1958

**Formal education:** B.S. Business Administration with Distinction, University of Nebraska – Lincoln, 1980

**Business background:**

Auditor, Touche Ross & Co., 1980-1982

Director, Planning & Financial Reporting, InterNorth, 1982-1986

Securities Analyst, Bridges Investment Counsel, 1986-1989

Vice President, Wallace R. Weitz & Company, 1989-1992

President, Pflug Investment Management, Inc., 1992-2000

President, Pflug Koory, LLC, 2000 - present

**Name:** Marcia A. Koory, CFA (see note below)

**Year of birth:** 1955

**Formal education:** B.S. Business Administration (Finance), University of Nebraska – Omaha, 1982

**Business background:**

Investment analyst/portfolio manager, Kirkpatrick, Pettis, Smith, Polian, 1983-1992

Portfolio Manager, First National Bank of Omaha, 1992-1997

President, Summit Value Investment Counsel, LLC, 1997-2000

Vice President, Pflug Koory, LLC, 2000 - present

Note: CFA designation - First introduced in 1963, the Chartered Financial Analyst designation, or CFA charter, has become the most respected and recognized investment credential in the world.

To earn a CFA charter, you must have four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA Program.

The CFA Program is organized into three levels, each culminating in a six-hour exam. The CFA Program consists of units studying accounting, economics, equity security analysis, fixed income security analysis, portfolio management, and other pertinent topics.

**Disciplinary Information**

Neither Thomas Pflug nor Marcia Koory have been the subject of any legal or disciplinary action.

**Other Business Activities**

Neither Thomas Pflug nor Marcia Koory are engaged in any other investment related business or occupation or any other substantial business or occupation.

**Additional Compensation**

Neither Thomas Pflug nor Marcia Koory receives any economic benefit from individuals or entities who are not clients in exchange for providing advisory services.

**Supervision**

Inasmuch as both Thomas Pflug and Marcia Koory are the only principals of Pflug Koory, LLC, each provides mutual supervision of the other's client related services.